



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



REPORT
No. 92-058

March 6, 1992

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Report on Merged ("M") Accounts at the Defense
Logistics Agency (Project No. 1FE-3001.02)

Introduction

This final report on the audit of merged ("M") accounts at the Defense Logistics Agency (DLA) is provided for your information and use. This report covers a portion of the DoD-wide audit whose results were summarized in our Report No. 92-028, "Merged Accounts of the Department of Defense," dated December 30, 1991. Comments on our draft report have been considered in preparing this report. The primary audit objective was to determine the validity of obligation balances in the merged accounts established by the Department of Defense under United States Code, title 31, sec. 1552(a).

The Defense Authorization Act for FY 1991, Section 1406, requires the Secretary of Defense to direct audits that will identify:

- o the balance of each account as of November 5, 1990;
- o the amounts required to meet valid obligations and the amounts considered no longer valid;
- o the sources of amounts in the account, shown by fiscal year, and the amounts for each fiscal year;
- o the average length of time funds have been obligated;
- o the average size of obligations; and
- o object classifications of the obligations.

Since DoD's automated accounting systems could not provide midmonth data, we relied on October 1990 month-end data to establish the value of "M" accounts. In our DoD-wide report, we published sources of funds, the average age and size of obligations, and the object classifications of obligations. DLA data were included in the DoD-wide report.

Scope of Audit

This financial-related audit was congressionally directed. We reviewed the support for balances of unliquidated obligations in the DLA merged accounts. We reviewed the Research,

Development, Test and Evaluation (RDT&E) account; the Procurement account; and the Operation and Maintenance (O&M) account. The audit was made between February 1, 1991, and May 31, 1991. The Comptroller, DLA, reported the following balances for all DLA finance and accounting activities as of October 31, 1990:

- o \$1,700,000 in RDT&E,
- o \$12,510,000 in Procurement, and
- o \$57,140,000 in O&M.

The total value of DLA's "M" accounts was \$71,350,000. DFAS provides DLA's finance and accounting support at several locations. DLA's accounts maintained by the DFAS Accounting Center in Columbus, Ohio, were valued at \$60,610,000. As of October 31, 1990, DLA's accounts in Columbus, Ohio, had balances of \$1,460,000 in RDT&E, \$6,620,000 in Procurement, and \$52,530,000 in O&M. These were the accounts included in our review.

Selection of sample. We used statistical sampling techniques to evaluate DLA's "M" accounts. To select sample items at DLA, we used a stratified three-stage cluster. In the first stage, we selected DLA from the universe of Defense agencies. In the second stage, we selected the DFAS Accounting Center in Columbus, Ohio. In the third stage, we selected line items from the three major appropriations evaluated in the DoD-wide audit. DFAS data were in several automated accounting systems. From each system, we obtained listings as of October 31, 1990; we stratified the items, counted them manually, and selected a sample using random numbers. Our sample of the three accounts was as follows:

DFAS-DLA UNIVERSE AND SAMPLE

	Universe		Sample	
	Lines	Obligations	Lines	Obligations
O&M	7,334	\$52,530,000	60	\$ 8,780,000
Procurement	44	6,620,000	30	6,390,000
RDT&E	351	1,460,000	30	1,150,000
Totals	7,729	\$60,610,000	120	\$16,320,000

The sample included 14 RDT&E items for FY 1987, valued at \$850,000. The universe of \$60,610,000 included \$1,150,000 in FY 1987 funds for RDT&E that had not been merged because DoD's RDT&E appropriation was overdisbursed. Treasury regulations prohibit merging of year-end accounts with negative preclosing balances. During our review, this account was pending resolution.

Limitations. The scope of the audit was set by the Defense Authorization Act for FY 1991, Section 1406. We did not evaluate the propriety of obligations, the reliability of computer-processed data, and the implementation of the Federal Managers' Financial Integrity Act pertaining to the audit objectives. We could not verify the reported balance of DLA's "M" accounts, since there was no documentation of individual Treasury disbursements. The balances of unliquidated obligations in DLA's "M" accounts had been computed using the value of obligations recorded in DLA's internal accounting systems, minus the value of total disbursements reported to DLA by the Treasury of the United States.

The Inspector General, DoD, Inspection Report No. 90-INS-05, March 22, 1990, reported significant internal control weaknesses in the management of DoD's merged accounts. These weaknesses included inadequacies in oversight, review, reconciliation, accounting data, and documentation. Due to the work involved in verifying balances in merged accounts, we did not identify the specific causes of the deficiencies noted. However, we believe the inspection report accurately describes the types of control weaknesses that led to such deficiencies. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Background

Congress appropriates funds for specific purposes with varying periods of availability. Two years after funds expire, the remaining obligations are transferred to a merged account. A merged account contains appropriations for the same general purpose. Monies that are not obligated, or that are subsequently deobligated, are returned to the Treasury of the United States. These monies are maintained in a Treasury merged surplus account until they are needed to meet valid obligations that were previously incurred.

Congress established merged accounts in 1956 (Public Law 84-798) so that agencies could pay obligations associated with activities for which no current, unexpired appropriation exists. Congress dissolved the merged accounts in 1990 and made all appropriations available for disbursements and adjustments for 5 fiscal years following expiration. After 5 years, all disbursements and adjustments for an appropriation must be made from current year funds appropriated for similar purposes. Appropriations maintain their identity throughout the 5-year period.

Prior Reviews

Both the General Accounting Office (GAO) and the Inspector General, DoD, have examined merged accounts.

GAO review. The GAO issued a final report, "Expired Appropriations," OSD Case No. 8309C, July 1991. The report documented a large increase in the use of DoD merged surplus authority and recommended that management strengthen restoration procedures by monitoring the reasons for increased payments to contractors. OSD has begun action on these recommendations.

Inspector General, DoD, review. The Inspector General, DoD, Inspection Report No. 90-INS-05, March 22, 1990, identified 13 areas in which management needed to improve the fiscal control and management of merged accounts. These problem areas included:

- o systemic problems with reconciliation and validation, oversight, and policy;
- o inaccurate unliquidated balances because of the inclusion of credit unliquidated obligations;
- o inadequate or inconsistent reviews;
- o lack of command emphasis and routine quality assurance; and
- o inadequate accounting data because of weak internal controls and poor recordkeeping.

Management generally agreed with the report, but did not make sufficient resources available to ensure corrective action in all cases. We observed the same problems; however, we noted that DLA was working toward compliance.

Discussion

DLA's merged account balances did not accurately reflect the status of the accounts. When we projected our sample to the DFAS universe, we determined that only \$10,840,000 (18 percent) of the \$60,610,000 in merged account balances, including RDT&E for FY 1987, was required to meet valid obligations (see Enclosure 2). The remaining \$49,770,000 represented invalid balances. Managers had not ensured an effective annual review of the validity of unliquidated obligation balances. A lack of supporting documentation existed, and finance and accounting personnel were not reconciling payment discrepancies. We found 72 invalid unliquidated balances in our sample of 120 items. We considered balances to be invalid if any of the following conditions existed:

- o Balances were not supported by adequate documentation;

- o Balances were improperly posted;

- o No disbursements had been made from the account during the last 2 full fiscal years;

- o Final payment had been disbursed to the contractor, but the remaining funds had not been deobligated, and there was insufficient documentation to review the unpaid balance in more detail; or

- o The paying office had made disbursements, but the finance and accounting office had not posted the disbursements by November 5, 1990.

We verified item balances against recorded obligations. We verified disbursement records maintained by both the finance and accounting activity and the paying office. Of the 120 items valued at \$16,320,000 (see Enclosure 1), \$3,080,000 was valid and \$13,240,000 was invalid. The \$13,240,000 contained \$9,150,000 in invalid obligations and \$4,090,000 in unmatched disbursements that had been made but not posted to the DLA accounts. For 58 items reviewed, we found insufficient documentation to support all or part of the obligated balances. Enclosure 1 contains a summary of all items and an explanation of each. DFAS personnel began deobligating many of the invalid items during the audit.

Recording of undistributed and unmatched disbursements.

Undistributed and unmatched disbursements are payments made by the paying office but not posted to the accounting records. In general, DFAS had problems collecting disbursement data. The "DoD Accounting Manual," DoD Manual 7220.9-M, February 1988, requires that discrepancies in disbursements be reviewed. Of the \$16,320,000 in unliquidated obligations sampled, \$4,090,000, or 25 percent, was no longer valid because it had been disbursed prior to November 5, 1990, but had not been posted to the accounting records. This represented 40 (33 percent) of the 120 DLA line items reviewed. Nine of these items had negative balances. When the absolute value of the negative amounts, \$3,190,000, was considered, the true value of the undistributed and unmatched items was \$10,470,000. ^{1/}

These discrepancies occurred at paying offices located throughout the United States and at the DFAS paying office collocated with the finance and accounting activity in Columbus, Ohio. Separate automated systems were used to manage disbursements and obligations, and financial data were not

^{1/} The \$10,470,000 was computed by adding (instead of subtracting) \$3,190,000 in negative unposted disbursements to the \$7,280,000 in positive unposted disbursements.

reconciled. DFAS is aware of the problems with reconciliation of account balances and has begun taking corrective action; however, considerable work remains. Because these funds cannot be reobligated, they were not included in our projections of monetary benefits (see Enclosure 3).

Although none of the negative balances were due to duplicate payments, the large number of negative balances at DLA indicated a potential for duplicate payments. Therefore, before merged accounts are closed out, accounts with negative balances should be recorded as accounts receivable so that refunds can be requested if needed.

Related Reporting Requirements

The "DoD Accounting Manual," DoD Manual 7220.9-M, February 1988, Chapter 93, "Year-End Closing Statements," requires fund administrators to provide a supplemental schedule showing the obligations reviewed by independent sources and the dollar amounts deobligated based on the independent reviews. The results of these reviews should be incorporated into DLA's year-end closing statements, and should be submitted with the completed "Accounting Report," M1176, or "Year-End Closing Statement," Treasury Fiscal Service Form 2108.

Recommendations for Corrective Action

1. We recommend that the Director, Defense Finance and Accounting Service:

a. Post unmatched disbursements, deobligate the Defense Logistics Agency's invalid merged account balances as shown in Enclosure 1, and permit DLA to reobligate unused balances where appropriate.

b. Direct a review of DLA's remaining unliquidated merged accounts and deobligate accounts with unsupported or invalid balances.

c. Identify and reconcile all negative merged account balances to be eliminated at the end of each fiscal year. Unreconciled accounts should be treated as receivables until it is determined whether the overdisbursements are posting errors, undistributed/unmatched transactions, or actual overdisbursements with refunds due from vendors.

2. We recommend that the Commander, Defense Logistics Agency, reobligate unused balances made available by the Defense Finance and Accounting Service, if appropriate.

Management Comments

DFAS - Columbus Center concurred with Recommendation 1.a. and has completed actions on about 70 percent of the accounts. The estimated completion date is January 15, 1992.

DFAS - Columbus Center concurred with Recommendation 1.b. and has completed actions on about 60 percent of the accounts. The estimated completion date is July 31, 1992.

DFAS - Columbus Center partially concurred with Recommendation 1.c. Management agreed to identify and reconcile all negative merged account balances, but nonconcurred with our recommendation to treat all unreconciled accounts as receivables. Negative balances will not be eliminated or written off until the necessary research is performed and the correct account balances are determined. The estimated completion date is July 31, 1992.

The DLA Comptroller nonconcurred with Recommendation 2. because he believed that our recommendation was contrary to guidance issued by the Secretary of Defense on June 13, 1991. The complete texts of DLA's and DFAS's comments is at Enclosure 4.

Audit Response to Management Comments

DFAS's comments are responsive to Recommendation 1. The actions proposed and being taken by DFAS fulfill the intent of the recommendation.

DLA's comments are not responsive to Recommendation 2. The guidance referred to above pertains to unobligated balances such as the Treasury merged surplus account. It is true that \$2 million of the \$9 million claimed as potential monetary benefits was realized in FY 1991 and is no longer available for reobligation. However, we identified these accounts to DFAS in March 1991. After DFAS deobligated these funds, the funds were available for reobligation to meet DLA's upward adjustments to contracts during the remainder of FY 1991. Additional funds from DFAS deobligations will remain available to DLA until the end of the fiscal year in which the deobligation occurred, or until the account is canceled. The amounts discussed in the report under "Recording of undistributed and unmatched disbursements" cannot be reobligated, since these funds have already been spent. The accounting activities have not recorded these disbursements.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Terry L. McKinney at (703) 693-0430 (DSN 223-0430) or Mr. Richard B. Bird at (703) 693-0476 (DSN 223-0476). We request that the Director, DLA, reconsider his response to Recommendation 2. and take corrective actions that will comply with the intent of our recommendations. We also request that the

Director, DFAS, comment on the monetary benefits identified in this report. Comments on this report should be received by April 17, 1992. Enclosure 5 lists the activities we visited or contacted, and Enclosure 6 lists the distribution of this report.

A handwritten signature in black ink, reading "Robert J. Lieberman". The signature is written in a cursive, flowing style.

Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Comptroller of the Department of Defense

ACCOUNTS REVIEWED AT DEFENSE LOGISTICS AGENCY

Sample of RDT&E Account at DFAS

FY 1986 and Prior Years

Account Object Class/FY	Line Item Identification Number	Amount Audited	Required for Valid Obligations	Invalid Obligations	Undistributed/ Unmatched Disbursements	Explanation
2521 85	51273017	\$ 250.00	\$ 0	\$ 250.00	\$ 0	A, D
2521 85	53043030	1,103.74	0	1,103.74	0	A, D
2521 85	53123015	1,462.50	0	1,462.50	0	A, D
2650 86	61003036	152.07	0	152.07	0	A, D
2521 85	51633013	1,500.00	0	1,500.00	0	A, D
2521 85	52833006	2,000.00	0	2,000.00	0	A, D
2521 85	52953093	160.00	0	160.00	0	A, D
2521 85	62523020	511.00	0	511.00	0	A, D
2521 85	53313004	154.50	0	154.50	0	A, D
3114 86	60580021	664.65	0	664.65	0	A, D
3124 86	62280001	4,684.60	0	4,684.60	0	A, D
2516 86	67165855	49,303.00	49,303.00	0	0	Valid
2516 86	67165853	58,987.27	58,987.27	0	0	Valid
2527 86	51933013	70,000.00	3,291.49	0	66,708.51	E
2516 85	DT1C1AC51	98,166.34	98,166.34	0	0	Valid
2521 86	51993001	10,680.30	0	10,680.30	0	A, D
FY 1986 Totals		<u>\$299,779.97</u>	<u>\$209,748.10</u>	<u>\$23,323.36</u>	<u>\$66,708.51</u>	

FY 1987

2521 87	71263035	\$ 233.40	\$ 0	\$ 233.40	\$ 0	A, D
2650 87	61983022	9,594.00	0	9,594.00	0	A, D
2521 87	70153007	5,000.00	0	5,000.00	0	A, D
2650 87	70973009	2,875.00	0	2,875.00	0	A, D
2521 87	62749632	8,387.50	0	8,387.50	0	A, D
2521 87	62749691	34,953.00	0	34,953.00	0	I
2516 87	78160288	34,857.00	0	34,857.00	0	A, D
2516 87	78165863	41,419.76	0	41,419.76	0	A, D
2516 87	78168802	62,711.29	0	0	62,711.29	E
2516 87	78160487	82,839.51	0	5,852.24	76,987.27	E
2516 87	78165901	107,379.22	107,379.22	0	0	A
2516 87	78165959	135,230.00	135,230.00	0	0	Valid
2516 87	78165958	184,000.00	0	0	184,000.00	E
2322 87	78225805	138,465.28	0	138,465.28	0	I
FY 1987 Totals		<u>\$847,944.96</u>	<u>\$242,609.22</u>	<u>\$281,637.18</u>	<u>\$323,698.56</u>	
RDT&E Totals		<u>\$1,147,724.93</u>	<u>\$452,357.32</u>	<u>\$304,960.54</u>	<u>\$390,407.07</u>	

ACCOUNTS REVIEWED AT DEFENSE LOGISTICS AGENCY
(continued)

Sample of Procurement Account at DFAS

Account Object Class	Line Item Identification Number	Amount Audited	Required for Valid Obligations	Invalid Obligations	Undistributed/ Unmatched Disbursements	Explanation
3100	40239382	\$ 5,195.66	\$ 0	\$ 0	\$ 5,195.66	E
3123	41782007	3,212.00	0	3,212.00	0	A, D
3100	50089444	180,000.00	0	1,811.00	178,189.00	A, E
3100	50099447	101,272.00	0	1,400.00	99,872.00	A, E
3100	50299477	16,510.18	0	18,263.68	(1,753.50)	A
3100	50299478	26,603.00	0	26,603.00	0	A, D
3124	51789710	26,470.06	0	26,470.06	0	A
3114	53659349	547,317.00	0	(7,035.00)	554,352.00	E, unposted
3114	53659350	78,353.00	0	(875.00)	79,228.00	E, unposted
3124	60109396	46,922.29	0	0	46,922.29	E
3124	60109399	191,202.00	0	191,202.00	0	A, D
3124	60109402	744,920.00	0	13,665.00	731,255.00	E, overpaymen
3124	60109403	44,770.00	0	44,770.00	0	A
3114	60159406	1,524.56	0	1,524.56	0	A
3124	60159407	119,028.00	0	119,028.00	0	A, cancelled
3124	60179417	348,984.26	348,984.26	0	0	Valid
3124	60229427	1,287.00	1,287.00	0	0	Valid
3124	60229428	1,111.89	0	0	1,111.89	E
3124	60449493	235,607.00	0	1,120.00	234,487.00	A, E
3124	60719538	206,572.00	0	206,572.00	0	A, D
3124	62259788	39,419.00	0	39,419.00	0	A, D
3124	72619154	130,533.98	28,045.00	0	102,488.98	Valid, E
3124	72619155	1,733,916.00	41,007.00	0	1,692,909.00	Valid, E
3124	72659158	112,492.00	0	818.46	111,673.54	A, E
3124	72669165	3,350.00	0	1,000.00	2,350.00	A, E
3124	72669166	3,777.18	3,777.18	0	0	Valid
3124	82639750	38,820.00	0	0	38,820.00	E
3123	86010635	93,604.37	93,604.37	0	0	Valid
3124	86060056	1,279,201.00	1,279,201.00	0	0	Valid
3124	87060234	26,789.55	26,789.55	0	0	Valid
Procurement Totals		\$6,388,764.98	\$1,822,695.36	\$ 688,968.76	\$3,877,100.86	

ACCOUNTS REVIEWED AT DEFENSE LOGISTICS AGENCY
(continued)

Sample of O&M Account at DFAS

Object Class	Line Item Identification Number	Amount Audited	Required for Valid Obligations	Invalid Obligations	Undistributed/ Unmatched Disbursements	Explanation
2640	50370013	\$ 302.40	\$ 0	\$ 0	\$ 302.40	D, A, E
2640	50980010	284.00	0	0	284.00	D, A, E
2640	60590001	412.50	0	0	412.50	D, A, E
2527	70283007	200.00	0	0	200.00	E
2640	72440008	115.00	0	0	115.00	D, A, E
1263	75871446	9,109.84	0	9,109.84	0	A, H
1253	BT300019	4,092.00	0	4,092.00	0	D, A
1243	R880831H	1,406.41	0	0	1,406.41	E
1263	11PCS713688C	8,229.75	0	8,229.75	0	A, H
2126	18PCS56088	923.00	0	923.00	0	A, H
2527	77275653	24,040.00	0	24,040.00	0	A, H
3124	77246004	24,946.30	0	24,946.30	0	A, H
2516	75160185	15,537.30	15,537.30	0	0	Valid
1263	75871123	13,722.52	0	13,722.52	0	A, H
2516	71118899	35,000.00	0	35,000.00	0	A, H
3124	40DLAZ152631	38,890.75	0	38,890.75	0	A, H
3124	40DLAZ0141224	22,697.59	0	22,697.59	0	A
1263	1063607088	12,876.22	0	12,876.22	0	A, H
1113	KPAY8177	13,258.62	0	13,258.62	0	H
3114	M58804232	(15,342.00)	0	0	(15,342.00)	E
3124	77245613	409,589.70	0	409,589.70	0	H
2322	50019004	698,415.59	0	698,415.59	0	D
2516	12JUN90W1925	(129,211.97)	0	0	(129,211.97)	E
2521	BS48	(310,000.00)	0	0	(310,000.00)	E
2516	776099	(226,321.00)	92,163.00	0	(318,484.00)	C
2516	8TMIPR113	115,000.00	0	0	115,000.00	E
2516	7720WU	699,575.95	0	699,575.95	0	E
2321	29DDNETWORK	404,000.00	0	0	404,000.00	E
2521	40DLAZ686	350,340.84	0	350,340.84	0	G
2640	M36684568	(223,834.46)	0	0	(223,834.46)	E
2321	29COMMUNICATION	1,349,109.90	0	0	1,349,109.90	E
2516	2984934	683,420.47	0	683,420.47	0	D
2322	2984974	609,322.68	0	609,322.68	0	D
2516	1705WH	572,525.73	0	0	572,525.73	E, H
2527	76115504	1,561,349.00	0	1,561,349.00	0	D
2527	50019034	2,640,989.00	0	2,640,989.00	0	D
2516	FY88B	(1,280,349.01)	0	0	(1,280,349.01)	E
2650	M5240832	(615,454.11)	0	0	(615,454.11)	E
2630	73089	206,870.40	0	0	206,870.40	E
2527	40DLAZ724227	240,875.00	240,875.00	0	0	Valid
2527	408486027	212,600.85	0	212,600.85	0	D
2527	118R66	205,000.00	17,429.43	0	187,570.57	E, valid
2527	2982934	167,002.63	0	0	167,002.63	E
2521	40DLAZ71321	177,684.64	177,684.64	0	0	Valid
2521	40DLAZ117021	148,923.56	148,923.56	0	0	Valid
2640	D5190	(292,453.47)	0	0	(292,453.47)	E

(O&M Account continued on next page.)

ACCOUNTS REVIEWED AT DEFENSE LOGISTICS AGENCY
(continued)

Sample of O&M Account at DFAS (continued)

Account Object Class	Line Item Identification Number	Amount Audited	Required for Valid Obligations	Invalid Obligations	Undistributed/ Unmatched Disbursements	Explanation
3113	50250018	\$ 11,576.25	\$ 0	\$ 11,576.25	\$ 0	E
2516	77165603	88,916.96	88,916.96	0	0	V
1263	65871210	12,997.04	0	12,997.04	0	G, H
1111	11008531PANA	(17,408.00)	0	(17,408.00)	0	A
3124	408486024	45,889.00	0	45,889.00	0	A
2527	118R28	15,334.95	15,334.95	0	0	V
2526	40DLA294026	12,351.68	12,351.68	0	0	V
3124	40DLAZ113024	19,670.00	0	19,670.00	0	A
2516	DFSC78880010	2,550.00	0	2,550.00	0	A
2650	870812-106	(115.60)	0	(115.60)	0	A
2312	6746242	4,876.63	0	4,876.63	0	A
2521	63173027	107.25	0	107.25	0	A
2640	708600002	468.80	0	468.80	0	A
2650	71033038	750.00	0	750.00	0	A
O&M Totals		<u>\$ 8,783,639.08</u>	<u>\$ 809,216.52</u>	<u>\$8,154,752.04</u>	<u>\$ (180,329.48)</u>	
DLA Total		<u>\$16,320,128.99</u>	<u>\$3,084,269.20</u>	<u>\$9,148,681.34</u>	<u>\$4,087,178.45</u>	

Legend of "Explanation" column:

A = Invalid obligation not supported by documentation.
C = Restoration of funds required because auditors noted duplicate posting of funds.
D = Deobligation of funds required because no disbursements were made from the account during the last 2 fiscal years.
E = Undistributed/unmatched disbursements made by Defense Contract Administration Services Regions before October 31, 1990, and not posted by the Finance and Accounting Office.
G = Remaining balance needs to be deobligated because final payment has been made.
H = Deobligated by DFAS.

**SUMMARY OF STATISTICAL PROJECTIONS FOR ACCOUNTS AUDITED
AT DEFENSE LOGISTICS AGENCY**

<u>Account Type</u>	<u>Universe</u>	<u>Valid</u>	<u>Valid Percentage</u>	<u>Precision with (+-) 95-Percent Confidence</u>	<u>Relative Precision Percentage (+-)</u>
RD&E	\$ 1,460,000	\$ 510,000	32.69	\$ 170,000	33.33
(1987 & prior years)					
Procurement	6,620,000	1,880,000	28.40	210,000	11.17
(1986 & prior years)					
O&M	58,360,000	8,450,000	14.48	5,590,000	66.15
(1988 & prior years)	(5,830,000)	0	0	0	.00
Totals	\$ 60,610,000	10,840,000		5,970,000	

<u>Account Type</u>	<u>Universe</u>	<u>Invalid</u>	<u>Invalid Percentage</u>	<u>Precision with (+-) 95-Percent Confidence</u>	<u>Relative Precision Percentage (+-)</u>
RD&E	\$ 1,460,000	\$ 530,000	33.97	\$ 250,000	47.17
(FY 1987 & prior years)					
Procurement	6,620,000	770,000	11.63	130,000	16.88
(FY 1986 & prior years)					
O&M	58,360,000	37,080,000	63.54	14,520,000	39.16
(FY 1988 & prior years)	(5,830,000)	(610,000)	10.53	(270,000)	-44.26
Totals	\$ 60,610,000	\$ 37,770,000		\$ 14,630,000	

INVALID OBLIGATIONS

<u>Account Type</u>	<u>Invalid Projection</u>	<u>Precision with 95-Percent Confidence</u>	<u>Range of Projected Benefits</u>
RD&E	\$ 530,000	\$ 250,000	<u>Lower Limit</u> to <u>Upper Limit</u> \$ 280,000 to \$ 780,000
Procurement	770,000	130,000	640,000 to 900,000
O&M	\$ 37,080,000	14,520,000	22,560,000 to 51,600,000
Totals	\$ 38,380,000	\$ 14,900,000	\$ 23,480,000 to \$ 53,280,000

SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM THE AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
1.a.	Compliance. Deobligation of the invalid balances shown in Enclosure 1 will result in a one-time savings and preclude the need for additional Treasury restorations because current funds will not be required to cover shortfalls in the "M" account.	\$9,148,681*
1.b.	Compliance with DLA Manual 7000.1-M will result in the deobligation of additional funds.	Undeterminable at this time.
1.c.	Internal controls and compliance with regulations will ensure that the Government will recover funds due from vendors.	Nonmonetary.
2.	Compliance. Reobligation of Funds with result in improved use of DLA appropriations.	Included in 1.a.

* The amount shown for Recommendation 1.a. is based only on accounts reviewed during the audit and does not include projections. Although we are certain that monetary benefits of between \$23.48 million and \$53.28 million will result when all appropriations are reviewed item-by-item, we are not claiming these monetary benefits because specific deobligations cannot be made until item-by-item reviews are performed.



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



DLA-CI

3 OCT 1991

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Merged ('M') Accounts at
the Defense Logistics Agency

This is in response to your 4 Oct 91 memorandum requesting our
comments pertaining to the subject draft audit report. The
attached position has been approved by Ms. Helen T. McCoy, Deputy
Comptroller, Defense Logistics Agency.

1 Encl

Jacqueline S. Bryant

JACQUELINE S. BRYANT
Chief, Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT

DATE OF POSITION: 31 Oct 91

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE: Draft Audit Report on the Merged 'M' Accounts
at DLA (Project No. 1FE-3001.02)

RECOMMENDATION #2: We recommend that the Commander, Defense Logistics Agency, reobligate unused balances made available by the Defense Finance and Accounting Service, if appropriate.

DLA COMMENTS: Nonconcur. DLA believes the revised DoD guidance dated June 13, 1991 (enclosed) on accounting for expired accounts, including 'M' and merged surplus accounts has overtaken this recommendation. In addition, the report under 'Recording of undistributed and unmatched disbursements' states that the funds cannot be 'reobligated'. Therefore, the Director, Defense Logistics Agency, can take no action on this recommendation.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

RECOMMENDATION MONETARY BENEFITS: \$9,148,681

DLA COMMENTS: This is addressed by DFAS.

ESTIMATED REALIZATION DATE: N/A

AMOUNT REALIZED: N/A

DATE REALIZED: N/A

ACTION OFFICER: Betty Mills, DLA-CX, x45057

PSE REVIEW/APPROVAL: R. N. Crossley, Chief, Financial Systems and
Control Division, DLA-CXF, x46221, 25 Oct 91

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller



COMPTROLLER OF THE DEPARTMENT OF DEFENSE
WASHINGTON, DC 20301-1100

JAN 13 1991

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION)
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION &
LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT) —
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTORS OF DEFENSE AGENCIES
DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Revised DoD Guidance on Accounting for Expired
Accounts, Including "M" and Merged Surplus Accounts

On December 10, 1990, this office provided guidance relative to the implementation of Public Law 101-510 regarding accounting for expired, "M" and merged surplus accounts. That guidance recognized the need to provide additional guidance once OMB and Treasury guidance became available.

OMB and Treasury have since issued additional guidance and reporting requirements. Attached is revised DoD guidance that incorporates appropriate items in the OMB and Treasury bulletins as well as other DoD changes.

It is recognized that additional issues regarding the implementation and impact of the new law may arise and need to be addressed. My staff will continue to meet and work with representatives of the financial and acquisition communities to resolve such issues as may arise. Additionally, my staff may further amend this guidance if appropriate.

Questions regarding the attached guidance and related "M" account issues may be directed to the Director for Accounting Policy, Mr. Nelson Toye, or to Ms. Julita Aviles or Mr. Adam Shaw of his staff (703) 697-6149, AUTOVON 227-6149.

Don Shycoff
Donald B. Shycoff
Principal Deputy Comptroller

Attachment

Column 3, "Obligation Balance Transfer to "M" Accounts" will be deleted.

f. No new "M" accounts will be established and existing "M" accounts will be phased out. Amounts transferred to "M" accounts by or on September 30, 1990, will not remain available for obligation adjustment or disbursement beyond September 30, 1993 and will be cancelled. Any unobligated balances remaining in the "M" account on September 30, 1991, and September 30, 1992, must be cancelled and will not be available for restoration.

g. On September 30, 1993, all remaining obligated balances which had been transferred to the "M" account from those appropriations whose period of availability for obligation expired on or before September 30, 1988, will be cancelled.

h. Obligated balances of the appropriations whose period of availability for incurring new obligations expired on or before September 30, 1983, were required to be cancelled and withdrawn to the Treasury by March 6, 1991. The only exception to this cancellation and withdrawal requirement were: (1) those amounts for which there was documentary evidence that a payment was required by May 5, 1991; and (2) those amounts which are needed for severance payments for foreign national employees. However, to the extent that required payments were not made by May 5, 1991, the applicable obligation should be cancelled, as should any associated obligated balances after May 5, 1991.

(1) Amounts presented for payment on March 6, 1991, and thereafter, which cite "M" accounts, shall not be paid until the paying office has determined that the applicable funds cited, or used to make such payment, exclude any amounts from cancelled accounts.

(2) Treasury reporting requirements concerning cancellations on March 6, 1991 and the residual balances for those amounts carried over to May 5, 1991, require:

(a) The identification of obligated "M" account balances cancelled and withdrawn on March 6, 1991. These amounts were to be certified by the applicable DoD Component and submitted to the Treasury by April 15, 1991 together with the amounts to be restored as specified in paragraph 3.c., above.

(b) The identification of residual balances carried over to May 5, 1991, in accordance with the provisions of paragraph 3.h., as well as those amounts cancelled and withdrawn effective May 6, 1991 (due to nonpayment by May 5, 1991). DoD Components are required to provide a certified report of these residual amounts to the Defense Finance and Accounting Service not later than June 1, 1991. Attachment 1 to Treasury Bulletin No. 91-03 prescribes the format to be used for this report.

Nov 19 91 15:45 No.010 P.02



DEFENSE FINANCE AND ACCOUNTING SERVICE
WASHINGTON DC 20376 9001

NOV 18 1991

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Merged ("M") Accounts at the
Defense Logistics Agency (Project No. 1FE-3001.02)

By memorandum dated October 4, 1991, comments were requested
on the recommendations and the accounts identified for
deobligation in the subject report.

The detailed Defense Finance and Accounting Service
responses to the recommendations contained in the draft report
are attached.

Albert V. Conte
Albert V. Conte
Director

Attachment

cc: DFAS-CO
DIA

Nov 19.91 15:46 No 010 P.O.---

**OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**

**DRAFT AUDIT REPORT ON THE MERGED ("M")
ACCOUNTS AT THE DEFENSE LOGISTICS AGENCY**

PROJECT NO. 1PE-3001.02

DEFENSE FINANCE AND ACCOUNTING SERVICE RESPONSES

* * * * *

COMMENTS ON RECOMMENDATIONS

RECOMMENDATION 1a: Post unmatched disbursements, deobligate the Defense Logistics Agency's invalid merged account balances as shown in Enclosure 1, and permit DLA to reobligate unused balances where appropriate.

DFAS COMMENT: Concur. DFAS - Columbus Center is currently working on this and has completed the necessary actions for approximately 70 percent of the accounts. Estimated completion date: January 15, 1992.

RECOMMENDATION 1b: Direct a review of DLA's remaining unliquidated merged accounts and deobligate accounts with unsupported or invalid balances.

DFAS COMMENT: Concur. DFAS - Columbus Center has completed the above actions on approximately 60 percent of the accounts. Estimated completion date: July 31, 1992.

RECOMMENDATION 1c: Identify and reconcile all negative merged account balances to be eliminated at the end of each fiscal year. Unreconciled accounts should be treated as receivables until it is determined whether the overdisbursements are posting errors, undistributed/unmatched transactions, or actual overdisbursements with refunds due from vendors.

DFAS COMMENT: Partially concur. DFAS - Columbus Center agrees to identify and reconcile all negative merged account balances. This has been done for approximately 50 percent of the accounts. However, we nonconcur with treating all unreconciled accounts as receivables. Many of the records are invalid and inaccurate. A receivable will be set up for a given account, when valid. No negative balances will be eliminated or written off until the necessary research is performed and the correct account balance is determined. Estimated completion date: July 31, 1992.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Washington Headquarters Services, Arlington, VA

Department of the Air Force

Wright-Patterson Air Force Base, OH

Defense Agencies

Defense Finance and Accounting Service, Columbus, OH

Defense Finance and Accounting Service Records Center,
Duluth, GA

Defense Logistics Agency, Alexandria, VA

Defense Contract Administration Services Region,
Philadelphia, PA

REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense

Defense Agencies

Director, Defense Finance and Accounting Service

Director, Defense Logistics Agency

Office of Management and Budget

U.S. General Accounting Office, NSIAD Technical
Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

Ranking Minority Member, Senate Committee on Armed Services

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

Ranking Minority Member, House Committee on Appropriations

House Committee on Armed Services

House Committee on Government Operations

House Subcommittee on Legislation and National Security,

Committee on Government Operations